DOCUMENT RESUME

ED 107 190 HE 006 586

TITLE	New Concepts of Student Access. Policy Analysis Service Reports. Vol. 1, No. 3.
INSTITUTION	American Council on Education, Washington, D.C. Policy Analysis Service.
PUB DATE	Mar 75
NOTE	32p.; Report of a seminar sponsored by Policy Analysis Service of the American Council on Education (August 27, 1974)
AVAILABLE FROM	Policy Analysis Service, American Council on Education, One Dupont Circle, Washington, D.C. 20036
EDRS PRICE	MF-$0.76 HC-$1.95 PLUS POSTAGE
DESCRIPTORS	*Educational Finance; *Federal Aid; *Higher Education; Private Colleges; *State Aid; State Colleges; State Universities; *Student Loan Programs; Tables (Data); Tuition
IDENTIFIERS	*Higher Education Act Title IV; National Direct Student Loan; NDSL

ABSTRACT

During the spring of 1974 a series of seminars on student aid programs was held in connection with the congressional hearings on Title IV of the Higher Education Act. This seminar report, which focuses on some of the issues arising from the National Direct Student Loan program and Title IV-B of the Higher Education Act, hopes to communicate widely some of the critical issues and concerns raised by the participants who have studied loan programs or who have worked extensively with them. The issues discussed in this document are as follows. (1) Student Aid Patterns at High-Cost Private Institutions and Alternatives and Recommendations Concerning Loan Programs; (2) Some Considerations for Congress on Loan Programs and What Should be Done with NDSL; (3) A Model on Loan Defaults; and (4) Imperatives in Establishing a Loan Program and the Viewpoint of Loan Program Administrators. (Author/KE)

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REPORT OF A SEMINAR HELD AUGUST 27, 1974
Sponsored by POLICY ANALYSIS SERVICE of the AMERICAN COUNCIL ON EDUCATION

POLICY ANALYSIS SERVICE REPORTS
Vol. 1, No. 3
March 1975

AMERICAN COUNCIL ON EDUCATION

Roger W. Heyns, President

The American Council on Education, founded in 1918 and composed of institutions of higher education and national and regional associations, is the nation's major coordinating body for postsecondary education. Through voluntary and cooperative action, the Council provides comprehensive leadership for improving educational standards, policies, and procedures.

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P R E F A C E

The Policy Analysis Service of the American Council on Education was created to give the Council a new ability to respond to public policy issues in higher education. The PAS prepares analyses of governmental actions, national social and economic developments, and trends in institutions of higher education; in addition, it provides information to ACE member institutions and associations. A major activity is convening seminars and meetings on issues of national policy. These seminars and meetings bring together representatives of congressional committees, the executive branch, state governments, institutions, and educational associations. Reports of meetings, analytic reports, and briefing papers will appear in the Policy Analysis Service Reports, and be made available to the membership.

During the spring 1974 a series of seminars on student aid programs and student access was held in connection with the congressional hearings on Title IV of the Higher Education Act. Since congressional hearings concerning the modification and extension of the Higher Education Act are continuing in 1975, this seminar report on four new concepts for facilitating student access will serve to communicate widely some of the critical issues and concerns raised by the participants who have had major responsibility for developing or for analyzing the concepts. The report in final form owes much to the expert editorial work performed by Laura Kent.

The PAS hopes that readers will find the Reports series informative, and will communicate comments or questions to the PAS staff.

John F. Hughes
Director
Policy Analysis Service

PRESENTATIONS

Guy Solie, Assistant to the President, Duke University

- The Education Security Fund: An Alternative for Middle-Income Families
- Organization and Funding
- The Lending Operation
- Return on Investment
- Relation to Other Federal Student Assistance Programs
- Some Further Considerations
- Question-and-Answer

Margaret S. Gordon, Associate Director, Carnegie Council on Policy Studies in Higher Education

- Two Years of Low or No Tuition in Postsecondary Education
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REPORT ON ACE/PAS SEMINAR:

NEW CONCEPTS OF STUDENT ACCESS

AUGUST 27, 1974

All too often in higher education -- and particularly in the area of finance -- policy-makers at all levels find themselves so overwhelmed by the immediate tasks of maintaining basic economic stability, working through existing patterns of power, and dealing with student aid programs put together from bits and pieces over the last ten years that they find it impossible to step back and take a long-range perspective on the fundamental problems of access and finance. But such a perspective is not only desirable but necessary. Without it, we may lose the opportunity of planning for a future that is imminently upon us.

In light of these considerations, this seminar -- another in a series sponsored by the American Council on Education's Policy Analysis Service -- focused on new concepts of student access, concepts that may in the next few years be insinuated into the decisional processes at the federal and even the state level. When the Policy Analysis Service was started in late 1973, it was expected that about 20-30 percent of the staff time would be spent conscientiously on "cloud-nine-type" thinking: raising possibilities, making connections with others who could take these ideas and think them through, refine them, suggest alternatives to them, and so forth. This seminar is a result of that endeavor.

No one would suggest that the problems we face are amenable to simple solutions or that the burden for finding solutions rests wholly with the federal government. Shifts and changes must -- and can -- take place at the private level, at the institutional level, at the local level, at the state level. The federal government can, however, act as a catalyst; it can lead the way for the entire system. Our concern should be not to be caught short when new approaches to current problems are needed. Thus, though some people might label the presentations by panel members as "far-out," they represent a deadly serious policy intent.

The Education Security Fund: An Alternative for Middle-Income Families

Guy Solie, Assistant to the President of Duke University, described the Education Security Fund (ESF), a concept which originated with Stephen K. Bailey and which was then developed, amplified, and evaluated by Mr. Solie. The Education Security Fund is proposed as a federally sponsored, independent agency intended to give to the children of middle-income ($15,000-$30,000) families total access to postsecondary education. Since roughly one-third of all college students are from this income category, the ESF potentially affects a large number of people. Indeed, the Fund might have a positive impact on a much wider range of students in that, being self-supporting, it could free up some of the federal funds that currently go to support such student assistance programs as Guaranteed Student Loans, allowing these funds to filter down to grant programs aimed at lower-income students.

The idea behind the ESF is twofold: (a) prepayment of postsecondary educational costs, and (b) a sharing of these costs among members of the family. The latter is a point of some contention: The program assumes that there is an economic unit known as the family -- it may not be a legal unit, but it is a viable one -- and that within this unit there is an interest in sharing the cost of postsecondary education.

The Fund has two main functions. First, it would lend money to parents to cover the costs of their children's education. Second, it would serve as an investment fund for parents who want to set aside money for their children's education. More specifically, the Fund is intended to serve the following purposes:

1. to benefit all income groups in our economic structure, particularly the middle-income group, which is heavily represented in the postsecondary population but inadequately covered by current federal programs of student assistance, from Basic Educational Opportunity Grants to the Guaranteed Student Loan Program;
2. to benefit equally students attending public institutions and those attending private institutions, and especially to diminish the selection of a postsecondary institution on the basis of its affordability;

3. to share the cost of education between the student and the parents, since current federal programs are forcing the former into a position of having to borrow funds or to seek out grants and are excluding the latter entirely, though the tradition in this country has been for parents to bear at least a part of educational costs; and

4. to expand the range of choices of postsecondary education, not only as between public and private, but also as to time frame (that is, the time in the student's life when he/she attends college and the length of time taken to complete the education), the area of academic concentration, and the sequence in which education is pursued.

Organization and Funding

The Education Security Fund would be organized somewhat along the lines of SALLIE MAE, the Student Loan Marketing Association. That is, though independent of federal control, the Fund would have the full faith and credit backing of the federal government.

Funding for the program would come from two sources. The first is debt: the borrowing of money in the open market (including the floating of bonds) at approximately the Treasury rate of interest. The second is equity: having parents invest in the Fund. At present, middle-income parents have no real reason for setting aside money for their children's college education. The middle-income parent cannot afford to buy 100 shares of IBM or to set up a $20,000 trust fund; the only alternative for the middle income parent is the savings and loan association, which offers no hedge against inflation. The ESF, therefore, would represent an attractive alternative; it would have the secruity of a savings fund coupled with a much higher rate of return. It is hoped that some kind of payment plan through payroll savings could be developed whereby the middle-income parent could have, say, $10 a month set aside from the paycheck and thus be spared the bother of having to run down to the bank.

The Lending Operation

The funds accrued through debt and equity will be used to lend money to parents so that they can send their children to higher educational institutions. Borrowers would pay the prime

rate of interest on these loans. The only alternatives right now are for students to borrow from the GSLP at 7 percent interest and for parents to borrow from banks (though currently banks will not make loans to parents for educational purposes) or, perhaps, from insurance plans, where the interest rates have been running as high as 15-20 percent or more.

Repayment would begin immediately after the assumption of the loan rather than being deferred until the student is out of school. Moreover, the repayment period would be shorter, than the ten-year period that is common in the case of federal student loan programs. It is anticipated that this program would reduce default rates (since parents have more assets than do children) and that there would be a faster cash flow.

Return on Investment

The return on investment under the Education Security Fund is projected to be between 10-25 percent annually. This high rate might be attained through the use of leverage, as is common in SALLIE MAE and FANNIE MAE, and through the spread between the prime rate of interest (which is what the borrowers would pay) and the lower Treasury rate of interest (at which the ESF borrows in the open money market). Indeed, the Fund might make enough money to be able to channel funds downward through the income groups, eventually getting into grant programs.

Relation to Other Federal Student Assistance Programs

The Education Security Fund may be thought of as completing the continuum of existing federal programs of student assistance. Basic Opportunity Grants, College Work-Study, the National Direct Student Loan program -- all these are aimed at the near-poor or at lower-middle income students. The Federally Insured Student Loan program is directed at a slightly higher income level. But all current federal programs stop at the $15,000 or the $20,000 income level. Moreover, all are aimed at the student. The ESF would provide a way for parents to reenter the picture and would allow the student from a family with a $15 -20,000 income to be able to select his/her institution freely. As the situation now

stands, many institutions (particularly high-cost private institutions) have simply priced themselves out of the reach of this income group. The student from this socioeconomic background is often forced to choose a lower-cost institution, or -- if he/she does attend the first-choice institution -- the family is forced to make sacrifices beyond their capabilities. There is also the danger that many colleges and universities are going to become institutions of very rich students and very poor students, with the middle-income student being squeezed out entirely.

Some Further Considerations

Certain other questions have been raised and alternatives suggested with respect to the Education Security Fund. For instance, tax incentives might be considered as one means of motivating middle-income parents to invest in the Fund. Second, some concern has been expressed about the parents' being "locked into" the Fund once the investment has been made. Some way of transferring funds should be devised so that the money is not dedicated to one particular child for a specific period of time. Third, if the Fund is financially successful, it may be possible to get into interest rate subsidies for lower-income families. Finally, as has been pointed out previously, a grant program could be a spin-off of the ESF.

Question-and-Answer

Asked about what inducement there would be for a family with a $10,000 income to invest in the Fund, Mr. Soule acknowledged that, at that income level, a family might not be able to put enough money into the Fund to save very much, although the possibility of a steady return might be an inducement. But most families at that income level might not have the necessary sophistication about tax incentives and reductions and about the possibility of manipulating their money in that way.

It was pointed out that if the rate of return went as high as 25 percent annually, compounded over a number of years, then investment in the Fund would be extremely advantageous for a middle-income family, particularly if the money were invested in

a lump sum. For instance, if a family put in $2,000 at the birth of a child, then 18 years later, when the child was ready to enter college, the return might run as high as $40,000 or even $50,000. Mr. Solie replied that no tables had been constructed on that high a rate of return (25 percent annually). Nonetheless, some limitations might have to be imposed: For instance, a ceiling might have to be imposed on the amount of money invested. The intention is not to have someone dump a million dollars in the program all at once, make a lot of money, and then pull out and build a bigger house. The return on the investment is intended to be used only for educational purposes. Moreover, as the plan was originally conceived, parents would not be putting in one large lump sum but making monthly payments into the Fund. For instance, if a family wanted to accumulate $5,000 at the end of 18 years, and with a 10 percent interest rate, they would have to pay in roughly $8.00 a month. Nonetheless, some kind of restriction on the amount of capital put into the Fund might have to be devised.

A question was raised as to whether an insured rate of return on investment was anticipated, or whether some kind of profit-sharing scheme would be operating. According to Mr. Solie, the notion is that there would be a guaranteed minimum rate of return over a number of years. If that rate of return was achieved, anything above it would be a kind of profit-sharing. For instance, a family might get a 7 percent return one year and a 10 percent return the next.

In response to a question about the independent student, Mr. Solie said that the borrower need not be a parent or a guardian: the money should be made available to any student. Theoretically, the independent student could participate in the Fund (the loan aspect, not the prepayment aspect), though he/she would be better advised to go to the Guaranteed Student Loan Program, because it would be cheaper.

Two Years of Low or No Tuition in Postsecondary Education

The second panel member, Margaret S. Gordon of the Carnegie Council on Policy Studies in Higher Education, talked about two years of low or no tuition in postsecondary education, a concept that constitutes one aspect of a much larger topic first suggested in a Carnegie Commission on Higher Education report, Less Time, More Options (1971) and since under study by the Carnegie Council: "two years in the bank" or two years of guaranteed higher education. The Carnegie Commission had previously recommended low or no tuition at community colleges in The Open-Door Colleges (1970) and for the lower division in all public institution in The Capitol and the Campus (1971). The question of implementation of two years of low or no tuition, though only one part of the current study, has received the most attention from the Carnegie Council staff to date and so is emphasized here.

The Pros and Cons

Some of the arguments usually offered in support of low or no tuition in the first two years of postsecondary education are, first, that it is consistent with the goal of universal access. Second, many students are initially uncertain about how well they are going to do in college and consequently are hesitant to borrow for the first two years; once they have made it through lower division, and moved on to upper division, they may -- if they cannot afford total costs and cannot get grants or scholarships -- overcome this reluctance to take loans. Thus, low or no tuition for the first two years would encourage attendance on the part of students who might otherwise be lost to higher education. Third, as has been pointed out by Congressman James O'Hara, Chairman of the Special Subcommittee on Education (Committee on Education and Labor), some parents and their children -- particularly those from such ethnic groups as Polish-Americans and Czechoslovakian-Americans -- feel that applying for grants is degrading, a mark of second-class citizenship; they would rather take advantage of low tuition. Fourth, adults returning to higher education (e.g., married women whose children are in school) often

study on a part-time basis and are thus ineligible for student aid; low or no tuition would be a great help to these people. Finally, if (as seems possible) the lowering of the legal age of adulthood results in court decisions outlawing the use of parental income as the criterion for determining student need, then the arguments for low or no tuition in the first two years may become stronger.

The chief argument of those who oppose low or no tuition is that the benefits from such a policy accrue, to a considerable extent, to students who could well afford to pay tuition. Moreover, as the subsequent discussion will show, serious questions arise in implementing such a policy: Should it apply only to public two-year colleges? Or should it be extended to cover the lower division at public four-year colleges? Should it be implemented in private institutions of higher education and, if so, how? Indeed, we may ask whether it would be possible for the idea to be politically acceptable unless private institutions were included in the scheme.

Implementing Low or No Tuition at Public Two-Year Colleges

Before considering the principles and problems connected with implementing a low-or-no-tuition policy at public two-year colleges, we must look at the present situation in that sector of postsecondary education, and in particular at current tuition charges. As a general rule, the two-year technical institutions (like the ones in North Carolina and South Carolina) have very low tuitions, whereas the two-year branch campuses of the state universities (which were counted as public two-year colleges in the Carnegie Council's analysis) tend to have tuitions that are geared to those of the parent institution and thus are relatively high. (Alaska, Hawaii, and Kentucky are exceptions, having two-year branch campuses that are essentially community colleges.) But, on the whole, tuition and required fees at public two-year colleges are comparatively low. As the attached table indicates, however, there are wide variations in tuition charges not only among the states but also within individual states. The degree of variation within a state is accounted for chiefly by locus of control: that is, by who has the authority to set tuition

Frequency Distribution of Tuition and Required Fees, Public Two-Year Colleges, by State, 1972-73

Tuition and required fees (In Dollars)	United States	Alabama	Alaska	Arizona	Arkansas	California	Colorado	Connecticut	Delaware	District of Columbia
0	158			6		89	2			
1 - 99	42			5	2	6				1
100 - 199	146			1		1	1			
200 - 299	232	18	8		3		10	13		
300 - 399	196						2	3	3	
400 - 499	96						1			
500 - 599	24									
600 - 699	22									
700 - 799	15									
800 - 899	18									
900 - 999										
1,000 - 1,999	1									
Number of institutions	949	18	8	12	5	96	16	16	3	1
Average tuition and required fees	252	203	200	48	187	2	232	229	390	90
Control		S	S	S & L	M	S & L	M	S	S	F

Frequency Distribution of Tuition and Required Fees, Public Two-Year Colleges, by State, 1972-73

(Continued)

Tuition and required fees (In Dollars)	Florida	Georiga	Hawaii	Idaho	Illi-noise	Indi-ana	Iowa	Kansas	Kentucky	Louisi-ana
0					10			1		1
1 - 99			7		3					1
100 - 199	4				5			1		3
200 - 299	19	11		1	8				2	1
300 - 399	5	2		1	14	13	3	15	12	
400 - 499					6		19	4		
500 - 599					2					
600 - 699										
700 - 799						1				
800 - 899										
900 - 999										
1,000 - 1,999										
Number of inst-tutions	28	13	7	2	48	14	22	21	14	6
Average tuition and required fees	244	281	50	298	232	365	410	220	367	121
Control	S & L	S & L	S	S & L	S & L	S	S & L	S & L	S	M

Frequency Distribution of Tuition and Required Fees, Public Two-Year Colleges, by State, 1972-73

(Continued)

Tuition and required fees (In Dollars)	Maine	Mary-land	Massa-chusetts	Michi-gan	Minne-sota	Missis-sippi	Mis-souri	Mon-tana	Nebraska	Nevada	New Hamp-shire
0						1	1				
1 - 99											
100 - 199						12	4	2	1		
200 - 299		4	1	2		4	6	1	9		5
300 - 399	3	11	13	26	18	1			3	3	2
400 - 499	2	2		4	2		3				
500 - 599											
600 - 699			2								
700 - 799											
800 - 899											
900 - 999											
1,000 - 1,999											
Number of inst-tutions	5	17	16	32	20	18	14	3	13	3	7
Average tuition and required fees	340	305	337	337	373	181	241	185	254	300	286
Control	S	S & L	M	S & L	S	S & L	S & L	S & L	S & L	S	S

Frequency Distribution of Tuition and Required Fees, Public Two-Year Colleges, by State, 1972-73

(Continued)

Tuition and required fees (In Dollars)	New Jersey	New Mexico	New York	North Carolina	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina
0		1	8								
1 - 99				13							
100 - 199	1	1		44		1	1				6
200 - 299		1				1	11	9	2		10
300 - 399	8	3	1		4	6	2	4	5	1	1
400 - 499	5	4	8		1	9	1		9		
500 - 599	1		17			3		1			8
600 - 699			10			9					
700 - 799			1			11			18		
800 - 899											
900 - 999											
1,000 - 1,999											
Number of institutions	15	10	45	57	5	40	15	14	34	1	25
Average tuition and required fees	367	355	455	120	350	546	252	301	624	300	318
Control	S & L	M	S & L	S & L	M	M	M	S & L	M	S	M

Frequency Distribution of Tuition and Required Fees, Public Two-Year Colleges, by State, 1972-73

(Concluded)

Tuition and required fees (In Dollars)	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington	West Virginia	Wisconsin	Wyoming
0	1								37	
1 - 99			4							
100 - 199		11	44					1		
200 - 299		1	5			26	27	4		7
300 - 399			1	5				1		
400 - 499						1			12	
500 - 599										
600 - 699										
700 - 799					1					
800 - 899										
900 - 999										
1,000 - 1,999					1					
Number of institutions	1	12	54	5	2	27	27	6	49	7
Average tuition and required fees	0	188	145	330	860	233	244	253	112	252
Control	S	S	S & L	S	S	M	S & L	S	M	S & L

levels. The bottom row of the table shows locus of control for each of the 50 states plus the District of Columbia: S=control by a state board only; S&L=a combination of state and local control, where there is both a state board with at least a coordinating function (and perhaps even greater power) and local district boards; M=mixed system, where some institutions are strictly state controlled, and others controlled by the state and local boards. This last category is exemplified by Ohio and Pennsylvania, both of which have both a community college system and a rather large number of two-year branch campuses. Illinois illustrates the second category, having a straight community college system and a very wide spread of tuition charges. (The ten institutions with zero tuition are, as one would suspect, located in the city of Chicago.) The point is that only in those states with a single, centralized system of control is there likely to be any uniformity in tuition charges at public two-year colleges. Where the decision-making authority is not restricted to the state -- that is, where local boards have some voice in setting tuition charges -- then there is likely to be considerable variation in these charges.

To determine what accounts for the wide variations among the states in their average tuition charges, the Carnegie Council analyzed five possibly influential factors and reached the following conclusions:

1. Though it was hypothesized that tuition charges might be associated with sources of financing -- and, more specifically, that in states where the community college system is partially dependent upon local sources of financing, tuition might be relatively high -- such is not the case. There is no relation between tuition charges and the proportion of revenue derived from local sources. In California, for example, more than 50 percent of the state-local revenues come from local districts, but the California community colleges have zero tuition throughout the state under state law.

2. Tuition tends to vary directly with per-capita personal income in a state, but the relationship is a relatively weak one, partly because some of the higher-income states are located in the Far West, where the tradition of low or no tuition is strong.

The factor that proved to be most closely related to tuition charges was percentage of total state enrollment in private institutions. This relationship holds true for public four-year colleges as well as public two-year colleges. The finding is not entirely surprising when one considers, for example, the state of New York, where the private sector exerts influence not only for scholarship programs but also for higher tuitions in the public sector. Though the relation in not perfect -- Massachusetts and the District of Columbia, the jurisdictions with the largest proportions of private enrollments, are exceptions -- it is strong. The average tuition in states with 0-9 percent of total enrollment in the private sector is $189; it rises to $435 in states with 40-49 percent of total enrollment in the private sector.

4. There are some systematic regional variations in tuition rates, partly explained by the relationship just described. The highest tuition rates are in the Middle Atlantic states, which also have relatively large enrollments in the private sector.

5. Tuitions tend to be relatively high in those states with relatively large state appropriations for scholarship programs. This relationship demonstrates the strength of the private sector in pushing both for higher tuitions and for state scholarship programs.

To turn to the question of implementing low or no tuition in the public two-year colleges: Most observers would agree that the prospects for state action are not promising. Although some states and some jurisdictions (like the City University of New York) have adhered to a policy of zero tuition, the overall trends as reported by the Education Commission of the States, are not only toward increasing tuition but also toward introducing more and more programs: e.g., state scholarship programs intended, in large part, to help students attend private institutions; and direct state aid to private institutions.

So federal inducement of some sort seems desirable. But in what form? There are three possibilities:

1. Federal assumption of a share of the cost. This alternative must be ruled out immediately. Given the wide variations from state to state (as indicated in the table), if the federal government were to pick up a share of the cost of proceeding toward low or no tuition, it would be penalizing the states that already have low tuition and rewarding those that currently have high tuition in the public two-year colleges.

2. Capitation payments allocated to states and based on FTE enrollment, conditional on a plan for lowering tuitions. If, in order to receive these payments, a state were required to reduce its tuition 20 percent from the existing level

every year for five years, that state would reach zero tuititon in five years. But the approach has some problems. The Carnegie Commission advanced some very potent arguments against capitation payments on the grounds that states have historically supported higher education in this way, and if the federal government moved in with the same mode of support, the state governments would begin to bargain for higher and higher capitation payments. Ultimately, some kind of monolithic federally controlled system of higher education would result. But that argument may not have as much force against a special program of capitation payments based on the state's moving toward low tuition as it does against the kind of capitation payments proposed prior to the Education Amendments of 1972. On the basis of 1973-74 enrollment, if $200 per FTE student were allowed, the total cost would be $372 million. (This figure counts a part-time student as one-third of a full-time student, the usual Office of Education formula.) Some estimate of induced enrollment needs to be developed, however, before a reliable cost estimate can be derived.

3. Federal grants-in-aid to states to induce low or no tuition. This approach was recommended by President Truman's Commission on Higher Education (the Zook Commission), which reported in 1947 and which came out strongly in favor of zero tuition in the first two years of public higher education. Specifically, the Zook Commission proposed a more traditional program of grants-in-aid to the states, to implement not only zero tuition but also a whole series of recommendations aimed at more open access. The Commission suggested that these grants-in-aid be based on formulas other than FTE enrollments: e.g., number of high school graduates in the state, size of the college-age population. These grants might be targeted to states with low per-capita personal incomes. Such an approach would have the advantage of encouraging states to work toward increases in high school graduation rates, college enrollment rates, and so forth, whereas capitation payments based on FTE enrollments implicitly accept a state's existing enrollment patterns.

Either of the latter two approaches would encounter complications in states that have a combination of state and local control, because there would be controversy over who would benefit from these federal payments. One of the reasons for the emphasis here on the relation between tuition charges and proportion of total enrollments in private higher education is to suggest that any move of this kind might be resisted in states that have strong private sectors.

Low or No Tuition in Lower Division of Public Four-Year Colleges

One of the arguments for extending low or no tuition to the first two years of all public institutions is that, if such a policy were confined to the two-year colleges, the uneven distribution of students in types of institutions by socioeconomic level might be exacerbated. Already some people have expressed concern about the segregation of low-income students in public two-year colleges. Thus, there are reasons for extending universal access (at least with respect to tuition) to the entire public sector. In states like California and Arizona, in the City University of New York, in the Chicago community colleges -- wherever the tradition of zero tuition is strong -- the public four-year colleges have not had any particular difficulty in competing with the public community colleges. Indeed, a recent article in the San Francisco Chronicle reported that college enrollments seem to be on the rise throughout the Bay Area, despite national declines, though this increase is probably in part attributable to California's being a state of in-migration.

Howard Bowen, one of the most thoughtful commentators on the whole issue of tuition and higher education financing, has expressed doubts about the wisdom of low tuition in the first two years of four-year institutions on the grounds that such a policy might lead to increased attrition after the first two years. On the other side of the question, Florida has been developing upper-division institutions specifically designed to take students who transfer from Florida's extensive community college system.

The factors associated with tuition levels in four-year public institutions are much the same as those found for two-year institutions. Again, the relation between tuitions and the proportion of total state enrollment in the private sector is very strong. In public universities, for example, the average tuition charge (weighted by institution) rises from $145 in states with 0-9 percent total enrollments in the private sector to $913 in states with 40-49 percent total enrollments in the private sector, though Massachusetts, with its tradition of holding public tuition down, is again an exception.

The estimated cost of a federal capitation payment of $200 per FTE student enrolled in lower division in the public four-year college sector would be about $305 million -- not an astronomical cost. One must recognize, however, that states which now have relatively high tuition would have to find some other source of funding the full tuition reduction involved. Though the $200 would come along year after year, and though it would help in reducing tuition the first year, the state could not continue to reduce tuition the second year with the $200 it received for that year without finding some other source of financing. The Carnegie Council is not inclined toward a formula that would involve the federal government in relating payments to institutional costs. The reactions to the report of the National Commission on the Financing of Postsecondary Education suggest that there would be a good deal of apprehension about federal monitoring of costs.

Low or No Tuition in Lower Division of Private Institutions

The most difficult aspect of the whole question is what to do about the private institutions. Though tuition in the private sector varies a good deal, in the most elite institutions it is now around $3,200. Thus, a $200 capitation payment from the federal government to the states would not go very far toward reducing tuition in private higher education. Moreover, there are probably legal and constitutional problems involved that do not arise in the case of public institutions. Generally speaking, the grants-in-aid approach, as opposed to the capitation payment approach, might be better adapted to bringing the private sector into the picture, because some sort of formula might be worked out whereby states with a high proportion of private enrollments could divert more of the funds to the private sector.

Low Tuition and Student Aid

Low or no tuition would not open the door to all needy students; those from very low-income families would still have to be aided by grants of some sort. Therefore, it is essential that we keep working toward adequate funding of current student aid programs. On the other hand, if it comes to pass that the courts

outlaw the use of parental income as a criterion for determining student aid awards, the case for low or no tuition in the first two years will be stronger than it is now.

Question-and Answer

In response to a question from John Hughes about whether the Carnegie Council analysis had included any study of the trade-offs between low or no tuition and current funding for grant programs, Dr. Gordon replied that, obviously, universal low or no tuition in the first two years of postsecondary education would result in savings in existing student loan programs. Enough data now exist on who gets student aid at what kinds of institutions to permit some kind of rough estimate to be made of possible savings.

Charles Kidd, Executive Secretary of the Association of American Universities, inquired about the implications that changing demographic patterns might have on the concept of low or no tuition. Specifically, he pointed out that, as enrollments level off, the squeeze of private institutions will get tighter. Dr. Gordon replied that the decline in enrollments projected for the 1980s may not occur if older adults enroll in college in greater proportions; their enrollments might compensate for the decline in enrollments among normal "college-age" people. The Carnegie Council is now working on revised enrollment projections, utilizing the data on all the age groups included in the Bureau of the Census fall enrollment reports. Preliminary results indicate that, because older people tend to enroll part-time rather than full-time, the picture will not be dramatically different with respect to FTE enrollments, though it may be different in terms of head counts.

Two Wisconsin Programs of Student Assistance

James Jung, Executive Secretary of the Higher Educational Aids Board, State of Wisconsin, discussed two state student aid programs: the Wisconsin Guaranteed Higher Education Plan (WGHEP) and the Wisconsin Income-Contingent Assistance Program (WICAP). WGHEP is a postsecondary education financing alternative while WICAP is a simple add-on to the existing student loan structure.

WGHEP: Background and Rationale

On November 30, 1973, the Higher Educational Aids Board approved in principle the Wisconsin Guaranteed Higher Education Plan and directed the staff to proceed in further definition of the program. A Legislative Council Committee was established in May 1974 to study WGHEP and to develop possible legislation for consideration by the Wisconsin state legislature.

WGHEP is intended to be a comprehensive postsecondary education financing alternative, based on the concept that public subsidies can best be targeted at the conclusion of the postsecondary educational experience. (Currently, educational subsidies are given largely during the educational experience.) Subsidies under WGHEP would be based on the economic circumstances of the individual. WGHEP further recognizes the growing extent to which the present student aid system is based on loans -- or the taxing of future incomes of students -- and suggests that taxing of future incomes of students ought to be progressive rather than regressive (as is the case with fixed conventional loan repayment schedules). The rationale for WGHEP comprises six basic points:

1. Total educational costs - The traditional focus of the financing problem has been on instructional costs. If we are going to deal with the financing problem as it exists, we must consider total educational costs to the individual; these include room, board, books, entertainment, travel, and miscellaneous.

2. The independent student - Too often, many of us in higher education talk about the 18-year-old majority as a problem, as something to be "dealt with"; instead, we ought to regard it as an opportunity. Over several generations, a welfare system has evolved in this country that, whatever its problems, has virtues as well, including a growing recognition of individual right. The dehumanizing paternalism which has for so long permeated the national dialogue on welfare also clouds our thinking on financing postsecondary education. No more than the income of an adult's parents can be used in determining welfare eligibility should the economic condition of an adult student's parents be used in determining eligibility for student aid. WGHEP recognizes the 18-year-old student as an adult.

3. The goal of access - It is necessary to provide a funding structure which recognizes that postsecondary education has a responsibility to assist all citizens regardless of race, socioeconomic background, etc. Equal access has certainly

been part of the rhetoric of higher education for generations; but perhaps we have paid more attention to cultivating our rhetoric than to actually achieving the goal of access.

4. Fiscal constraints - Competition for federal and state tax dollars is growing steadily more intense; the long list of priorities includes many worthy proposals, other than education, for expenditures of the taxpayers' money. Therefore, we must recognize that there will be a definite limit to the dollars available to support higher education in the future.

5. The plight of the middle class - The middle class is caught in a financial bind. Our financial structures ought to recognize that the middle class, too, should have financial access to postsecondary education.

6. The problem of excessive borrowing and excessive debt - This problem is related to the problem of total costs. For some reason, it has not been sufficiently recognized that many students are now financing their education through extensive borrowing. In Wisconsin, from 1933 to 1966, the total aggregate student debt under state-sponsored loan programs was $10 million. From 1966 to July of 1974, it has grown to over $100 million just under state-sponsored programs. And the Wisconsin situation is not unique.

WICAP: Basic Features

The Wisconsin Income-Contingent Assistance Program has been endorsed by the Higher Educational Aids Board, is supported by the State Bureau of Budget and Management, and stands a good chance of receiving the governor's approval and becoming a part of his budget. It has been proposed for implementation in 1976-77. WICAP, an income-contingent add-on to existing student loan programs, is designed to meet some of the problems -- both short- and long-range -- associated with massive student borrowing under conventional loan programs. The following are the main features of the program:

1. Upon leaving school, a student would have the option of repaying his/her loan on an income-contingent basis for up to 25 years; after that time, any remaining amounts would be forgiven.

2. During repayment, a state interest subsidy of up to 7 percent annually would be provided to those students whose payment was insufficient to cover the 7 percent annual interest. This procedure is intended to assure that the student who must take advantage of the longer repayment period will not be burdened with excessive interest charges. The program provides that the interest in any one year will be paid, either by the student or by the state.

3. A minimum annual payment, to be set by the Board, would be required.

All students who are Wisconsin residents and who have educational loans under the Wisconsin Guaranteed Student Loan Program, including the Direct Loan Program, would be eligible for participation in WICAP. If the WICAP participant remained in Wisconsin for three years and then left the state, participation in WICAP would continue, but if he/she left within a three-year period, WICAP participation would end, and the student would be fully responsible for meeting the terms and conditions of his/her conventional loan notes. Considerations of fairness dictated this consideration; since the state would be wholly responsible for the low earnings protection provided by WICAP, it is only reasonable that these benefits should be available only to borrowers remaining in the state for a substantial period of time. If and when the federal government sets up a low-earnings-protections program, then this provision would no longer be needed. Finally, the student borrower would be eligible for participation in WICAP whether he/she receives the degree or not. In Wisconsin, the proportion of very poor people who borrow is twice as great as their proportion in the tax-paying population. Thus, excessive borrowing is a particular problem to this group. Moreover, it is the student from a low-income family who has the greatest difficulty in handling repayment if he/she is forced to drop out of school without receiving a degree.

Administration of WICAP

The Higher Educational Aids Board would have authority for administering WICAP. Because of its limited scope (being an add-on to the existing loan system, and being restricted to Wisconsin residents), the program would require minimal administration, in terms of both costs and complexity. The two primary documents required are the Wisconsin Income Tax Form and a WICAP agreement form.

Costs of the Two Programs

The cost of WICAP is modest. So, it would seem, is the cost of a full WGHEP, though when the proposal for WGHEP was first presented, the estimated cost was astronomical because of erroneous

assumptions based on poor data. Since the original presentation, however, a cost-simulation computer model has been developed, using 100 different income streams and six different educational levels. The model can handle a variety of assumptions concerning interest costs both internal and external, various repayment formulas, rates of inflation, and so forth.

The Board approved an annual repayment formula for WICAP of 4 percent of adjusted gross income minus $120. Based on this repayment formula, the projected cost of WICAP for low-earnings protection is approximately $5.6 million in the thirtieth year and is based on an aggregate outstanding debt figure of over $.5 billion.

The costs for WGHEP are in the same proportion. Of course, the annual advances would be much higher. The Board, in making WICAP a part of the budget, stated that it was to be a five-year demonstration project. The program, if adopted, will of course be monitored on an annual basis. A member of the Board who voted against the proposal, a very informed member, commented that this represents a radical departure on the part of the State of Wisconsin, in that it provides subsidies at the end of the educational experience as a matter of state policy. There are precedents for providing such subsidies, but the program does represent something of a policy shift.

Question-and-Answer

Carol Van Alstyne, Chief Economist of the PAS Staff, raised two related points. First, one of the purposes of student assistance programs is to provide people with incentives to attend college, thus increasing participation rates. If, under WICAP, the subsidy is given at the end, rather that toward the beginning, of the postsecondary educational experience, how will this purpose be affected? Will the inducement to enrollment still be there? Mr. Jung replied that people go to college with the expectation of getting higher paying jobs as a result of their educational experience; they do not turn down a high-paying job on the grounds that they will have to pay higher taxes than they would if they had a low-paying job. It would be necessary, therefore, to implement a publicity campaign explaining WICAP. Through this campaign, people

would become aware that the money is there in the amount needed for each individual to go to school and that the borrower's obligation to repay is proportional to his/her income. Therefore, WICAP would encourage wider participation in postsecondary education than is the case under the present system. Second, Dr. Van Alstyne asked if any empirical research had been carried out on the question of student willingness to take out long-term, income-contingent loans; some data (from Duke University) would seem to suggest that students who participate in an income-contingent loan program in their first year come back the second year and do not participate in the program but instead seek shorter-term conventional loans, even at higher interest rates. Mr. Jung replied that, in Wisconsin, the only consistent support for the WICAP program has come from student groups: organized student government groups, the student advisory council to the Higher Educational Aids Board, and other student organizations have all been active in advocating this kind of loan program. Students would, of course, rather have free money in the form of grants; but they have come to recognize that such money is just not there for everyone and that it is necessary to provide as much targeting as is reasonably possible in our postsecondary education subsidy programs.

According to Margaret Gordon, one basic problem with income-contingent loan programs is that people who end up earning higher incomes also have to pay higher annual amounts than people who end up with lower incomes. For that reason, the Zacharias Plan (for instance) included a feature allowing the borrower to opt out after he/she had repaid what would have been paid on a conventional basis. How does WICAP address that problem? Mr. Jung gave a two-part response: (1) Annual repayments up to a certain income level are much less under WICAP and WGHEP than they are under a fixed repayment schedule and a person under either program is never responsible for repaying more than what was borrowed or advanced regardless of income; (2) Of course those who have very high incomes may object to the high annual repayments, just as they now object to their higher taxes. But in talking about a financing system for postsecondary education, we must be concerned primarily

with the 80 or 90 percent of the people, not with the 10 percent who have very high incomes.

The Hartke Family Tuition Assistance Plan

The final panelist was Robert J. Pitchell, Executive Director of the National University Extension Association, who talked about the Hartke Family Tuition Assistance Plan, proposed by Vance Hartke, Democrat of Indiana and member of the Senate Finance Committee, who has long been concerned over the financial plight of middle-income families with one or more children in college. The proposed plan (which was also called, in the staff report, Negative Educational Income Tax Credit) is a marriage between a relatively pure income tax credit plan and Milton Friedman's concept of a negative income tax, thus resulting in a shift from a highly regressive system (represented by old tax credit schemes) to a highly progressive system. Put simply, it would provide across-the-board tuition assistance for all students at all types of accredited postsecondary institutions, regardless of the student's residence or status (as independent or parent-supported) and regardless of whether the institution is public or private.

Main Features

1. An income tax credit for all students or their families against tuition and fee payments in accordance with the following formula:

   a. 80 percent of the first $500 of such payments
   b. 60 percent of the next $500 of such payments
   c. 40 percent of the next $1,250 of such payments

   The maximum credit is $1,200 credit for tuition and fees of $2,250 or more.

2. A freezing of eligible tuition payments at the 1974-75 level, coupled with a built-in cost-of-living adjustment both in eligible levels of payment and in total tax credit. The freeze is designed to prevent relatively low-tuition institutions from almost immediately raising their tuitions on the assurance that the federal government will be picking up 80 percent of the tab. Under the cost-of-living adjustment, if double digit inflation continues at 10 percent, then the formula would be 80 percent of the first $550 (rather than the first $500), and so forth across the board.

3. A negative income tax feature that provides for reimbursable credit regardless of level of income or amount of tax paid, if any. This is the crucial feature of the plan.

4. A provision for advance payment of the tax credit before tuition payments are due. This provision is designed for the many students who would have difficulty making the tuition payment first and then applying for the tax credit. It is a simple expedient that makes it possible for anyone who is going to apply for college the following year to apply for the credit in April at the time the previous year's taxes are paid.

5. Eligibility of tuition payments for all students, whether full-time or part-time, in degree credit or equivalent diploma or certificate programs in all accredited postsecondary institutions as currently defined in the Higher Education Act student assistance programs.

6. Restriction of the tax credit to either the student or one member of his family. This provision is designed to simplify administration.

7. An adjustment in allowable credit for aid received from fellowships, scholarships, social security, and other payments which qualify as nonreportable income under section 117 of the Internal Revenue Code. If an individual gets a scholarship of, say, $1,000, then 50 percent would be deductible against the tax credit that would be allowable. (Veterans payments are exempt from this exclusion).

Analysis

1. The plan is intended to provide relief to middle-income families who are now virtually excluded from federal and state student aid programs, at the same time that it accommodates to the needs of low-income students in a more effective way than current programs do.

2. The bill would, in effect, create an across-the-board reduction in tuition and fees which would (a) have a progressive impact upon students in terms of individual or family income levels, and (b) accommodate to the price differentials of public and private postsecondary education institutions.

3. Advantages of the plan are: (a) the program would virtually eliminate the need for the BOG program but would continue to make the SEOG and work-study programs important supplements to this basic tuition reduction plan for very low-income students; (b) the plan would virtually eliminate all significant administrative costs of a basic student-aid program to the federal government, students and postsecondary institutions, because it is built automatically into income tax reports; (c) the plan would also virtually eliminate falsification in the reporting of income under the current BOG program; (d) the plan would effectively eliminate the growing problem of attempting to deal equitably with "independent" students vs. dependent students; (e) the plan would

most probably reduce the growing problem of defaults on student loans, although other bills now in Congress would deal more directly with this problem; (f) the plan would prevent low-tuition institutions from taking advantage of its provisions by suddenly imposing dramatic increases in tuition yet would allow for changes in eligible tuition rates in accordance with changes in the cost of living; (g) the plan eliminates the growing problem of equity for part-time students in student aid programs without raising Congressional concerns about use of federal funds to finance noncredit programs or adult education courses such as flower arranging, gourmet cooking and investing in the stock market, which normally are solely for the personal enjoyment of the participants.

4. Disadvantages of the plan are: (a) cost -- approximately $5 billion gross and probably $2-3 billion net in addition to current programs which could be reduced or eliminated (Congressional staffs are now working on more definitive cost data); (b) probable opposition from the Treasury, which has traditionally opposed use of the tax system to finance programs which could otherwise be financed by direct appropriations, (c) possible "image" problems for what is essentially a tax credit plan because of the discrediting of previous tax credit plans.